

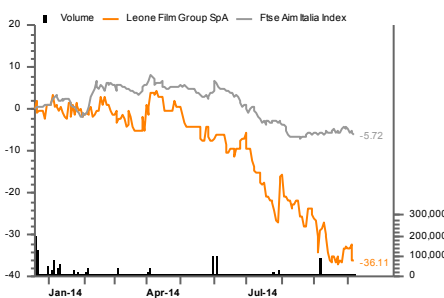
EQUITY RESEARCH



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LFG Relative Price Chart



| Market Data: | |
|---------------------------------|-----------|
| Close Price (€) | 3.06 |
| 52 Wk. High / Low (€) | 5.19/2.98 |
| Daily Trading Volume (thousand) | - |
| Price Change: 1 w | -7.3% |
| Price Change: 1 m | -10.0% |
| Price Change YTD | -37.6% |
| Market Capitalization | 40.9 |
| Dividend Yield | 2.9% |

Leone Film Group (LFG) announced 29% yoy top-line growth, from € 8.8mn in 1H2013 to € 11.3mn in 1H2014. A significant 89% of 1H2014 revenues, € 10.0mn, were generated from new content distribution whereas € 1mn was generated from the films already in library and € 0.3mn from Pacmedia. Having reached € 7.1mn of EBITDA in the first half (with a 15% yoy increase), LFG's EBITDA margin improved slightly to 63%, from 62% in FY2013. 1H2014 net profit was at € 1.2mn.

Movies distributed by LFG in 1H2014, namely *Wolf of Wall Street*, *Need for Speed*, *Transcendence*, *The Nut Job*, and *Big Wedding*, all together generated box office revenues of € 17.6mn around Italy, and their theatrical revenue contribution to LFG's consolidated net sales was € 3.2mn or 28%. In addition to theatrical income, LFG cashed-in € 6.8mn in the same period from the sale of stakes (usually 50%), Free TV rights (usually to RAI) and Home Video (DVD). Accordingly, these five movies, which LFG acquired by investing € 9.8mn and promoted by spending € 2.3mn, generated € 10.0mn of revenues only in 1H2014.

The revenue generation of a new content continues to be intense throughout the first two years, and in our case: a) *Big Wedding* and *Need for Speed*, although released in 1H2014, continued performing in theaters in 3Q2014, and accordingly we expect these two films to generate an additional € 0.2mn of theatrical revenues in 2H2014, b) We estimate the company to cash-in further income in 2H2014 from the sale of the rights of the 1H2014 movies, c) More importantly, Pay TV and Digital Platform revenues (as well as further Home Video income) of a content typically arrive the following year, which in this case will be 2015, and we estimate these revenues to reach € 2.2mn. All in all, these five motion pictures are expected to arrive at € 13.0mn of revenues within the first 2 years after theatrical release, realizing a 7% return on investment (€ 13.0mn of revenues / € 12.1mn of costs). They will then be moved to the library where they will keep on generating income.

To grow further and fast in the upstream segment (productions and co-productions) was among LFG's plans; however, the company did not yet produce movies in 2014. The management instead decided to take an alternative step and announced in July 2014 that they will be acquiring Lotus Production, an Italian independent production house specialized in executive productions (movie and TV series) and co-productions. Founded and since-then managed by Marco Belardi, this production house generated € 11mn of revenues and € 0.7mn EBITDA in 2013.

More importantly, it has a pipeline of production projects for the following 3 years, which will be managed under LFG following the acquisition that will likely take place before YE2014. Lotus' revenue contribution to LFG's top-line is expected to be € 14mn or 49% in FY2015.

In line with 1H2014 results according to which LFG did not generate upstream revenues and Pacmedia contributed less-than-expected to the top-line, we revised down our FY2014 estimates. We now expect the company to reach a € 19.2mn turnover and € 14.3mn EBITDA by year-end. The bottom-line is estimated to be € 2.1mn. We expect CAGR of the net sales, EBITDA and net profit to be 55%, 23% and 54% respectively over the 2014E-2016E period. The market performance of LFG shares, which has been a negative 36% since the IPO of December 2013, appears to be not justified by the lower-than-expected financial results which point to a 12-18 month postponement of the company's development plan.

| € thousand | Revenues | EBITDA | EBITDA Margin | EBIT | Earnings | Net Margin |
|------------|----------|--------|---------------|-------|----------|------------|
| 2012 | 13,139 | 6,666 | 51% | 2,517 | 1,449 | 11% |
| 2013 | 20,271 | 12,551 | 62% | 4,264 | 2,364 | 12% |
| 2014E | 19,166 | 14,294 | 75% | 3,636 | 2,135 | 11% |
| 2015E | 29,774 | 11,867 | 40% | 4,816 | 2,873 | 10% |
| 2016E | 46,101 | 21,705 | 47% | 7,926 | 5,057 | 11% |

Source: Company data, KT&P estimates

1H2014 results

LFG grew its top-line by 29% yoy from € 8.8mn in 1H2013 to € 11.3mn in 1H2014. Content distribution continued to be the core business, also due to the fact that the company did not realize any upstream projects in 2014. Motion picture content acquired for 1H2014, namely Red Granite's *Wolf of Wall Street*, Dreamworks' *Need for Speed*, Lionsgate's *Transcendence*, Weinstein's *The Nut Job*, and again Lionsgate's *Big Wedding*, generated € 10.0mn of revenues (theatrical and other), which was 89% of LFG's overall turnover in the period.

In line with its global theatrical performance, *Wolf of Wall Street* was a big hit in Italy, having generated alone € 12mn box-office revenues and having been viewed by c. 2mn spectators. Dreamworks' *Need for Speed*, on the other hand, failed to meet expectations not only in Italy but also around the world. Its Italian box-office revenues remained at € 2.2mn (out of which € 1.7 was generated in 1H2014, and the rest in July 2014). Another blockbuster, *Transcendence*, performed relatively better, reaching € 2.7mn box-office income in 1H2014. *The Nut Job*, LFG's first animated motion picture, performed quite well and generated c. € 1mn box-office revenues in Italy.

The American comedy *Big Wedding* was released in late June, and reached € 0.6mn box-office revenues, € 0.3mn of which was recorded in 1H2014 and the rest in 2H2014.

These five movies' overall theatrical revenue contribution to LFG's top-line in 1H2014 was € 3.2mn (Box-office revenues, netted of tax, are shared between the distributor and theater operators). In addition to these theatrical revenues, LFG registered € 6.8mn of income in the period from the sale of stakes (usually 50%), Free TV rights (usually to RAI) and Home Video (DVD).

Table 1: Summary Income Statement

| € thousand | 2012 | 2013 | 1H2013 | 1H2014 | YoY % |
|----------------------------|---------------|---------------|--------------|---------------|------------|
| Net Sales | 13,139 | 20,271 | 8,758 | 11,269 | 29% |
| Service Costs | -7,157 | -5,933 | -1,828 | -3,391 | |
| Personnel Costs | -1,211 | -514 | -216 | -215 | |
| Other Operating Costs | -1,227 | -1,452 | -547 | -590 | |
| (+) Capitalized Prod Costs | 3,122 | 179 | 0 | 0 | |
| EBITDA | 6,666 | 12,551 | 6,167 | 7,073 | 15% |
| Amortization | -4,149 | -8,287 | -4,597 | -5,073 | |
| EBIT | 2,517 | 4,264 | 1,570 | 2,000 | 27% |
| Net Financial Income | -321 | -649 | -167 | -97 | |
| PBT | 2,196 | 3,615 | 1,403 | 1,903 | 36% |
| Taxes | -697 | -1,360 | -495 | -725 | |
| Net Income | 1,499 | 2,255 | 908 | 1,178 | |
| Minority Interest | 50 | -109 | -21 | 0 | |
| Net Income after MI | 1,449 | 2,364 | 929 | 1,178 | 27% |

Source: Company Data

LFG's library, composed of 420 films (excluding the content acquired in 1H2014), contributed € 1.0mn to the top-line in 1H2014. Revenues from this library are generated --from the sale of Pay TV, Free TV, Digital Platform and international rights-- at zero direct cost, and therefore is an important contributor to LFG's margins.

Pacmedia, LFG's now-100% subsidiary active in the product placement business, with its core business in the USA, reached a less-than-expected € 0.3mn revenues in 1H2014. Its 1H2013 revenues were € 1.4mn.

Pacmedia's contribution to LFG had usually been limited to the top-line and the subsidiary was valued more as a strategic unit that provides indirect support to motion picture producers in the USA who in return choose to work with LFG in Italy. This business unit, which was not used to contribute much to LFG's profitability, slowed down its agency activities in 1H2014 also due to the fact that some Pacmedia contracts with major clients terminated in the period. This is the reason for the yoy decline in Pacmedia revenues and we expect the case to be similar also in 2H2014.

LFG's EBITDA reached € 7.1mn, thus EBITDA margin slightly improved from 62% in 2013 to 63% in 1H2014. The bottom-line in 1H2014 was at € 1.2mn.

Table 2: Summary Balance Sheet

| € thousand | 2012 | 2013 | 1H2013 | 1H2014 |
|---|---------------|---------------|---------------|---------------|
| Cash and Cash Equivalents | 1,964 | 10,531 | 459 | 852 |
| Trade Receivables | 9,385 | 8,756 | 6,359 | 10,168 |
| Other Current Assets | 530 | 2,521 | 895 | 2,259 |
| Current Assets | 11,879 | 21,808 | 7,713 | 13,279 |
| Tangible Assets | 251 | 293 | 255 | 339 |
| Intangible Assets | 23,219 | 28,233 | 22,421 | 28,147 |
| Other Non-current Assets | 554 | 767 | 413 | 619 |
| Non-Current Assets | 24,024 | 29,293 | 23,089 | 29,105 |
| TOTAL ASSETS | 35,903 | 51,101 | 30,802 | 42,384 |
| Trade Payables | 3,907 | 9,081 | 3,343 | 5,132 |
| Financial Debt | 11,494 | 7,165 | 8,948 | 3,757 |
| Other Short-term Liabilities | 7,230 | 5,973 | 4,190 | 4,540 |
| Short-Term Liabilities | 22,631 | 22,219 | 16,481 | 13,430 |
| Deferred Taxes | 4,403 | 3,294 | 4,487 | 3,294 |
| Other Long-term Liabilities | 28 | 62 | 34 | 69 |
| Long-Term Liabilities | 4,431 | 3,356 | 4,521 | 3,363 |
| Minority Interests | 56 | -89 | 35 | 0 |
| Shareholders' Equity | 8,784 | 25,616 | 9,765 | 25,591 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | 35,903 | 51,101 | 30,802 | 42,384 |

Source: Company Data

LFG capitalizes its content acquisition costs under intangible assets, which are later on amortized in line with the revenues they are expected to generate in years. Accordingly, as of 1H2014-end, net book value of LFG movies (library plus the new content of 1H2014) is at €28.2mn.

The company carries on its balance sheet € 0.8mn (7% of net sales) of government-related receivables, which are recorded as 'other current assets', that stem from the tax-credits of the Gabriele Muccino film *Playing the Keeps*, which was co-produced by LFG in 2012 and released in 2013. The average collection period for government-related receivables in the industry is 2years and therefore we expect the company to collect them in 2015.

Thanks to the IPO proceeds collected in late 2013, LFG's net debt decreased from € 8.5mn by 1H2013-end to € 2.9mn by 1H2014-end. The company had a net cash position of € 3.4mn by YE2013.

Maintained 6% market share

Overall Italian motion picture industry reached € 297mn of size in 1H2014, with a mere 1.7% yoy contraction from € 302mn in 1H2013. Independent distributors (below in Table 3) maintained their 51% market share, generating € 153mn box-office revenues in the same period. LFG too conserved its market share of 6% (on a look-through basis) among independents.

Table 3: Italian Motion Pictures Distributors in 1H2014 (on a look-through basis)

| € | Box-Office Revenues | Share | Audience | Share |
|-------------------------|---------------------|---------------|-------------------|---------------|
| Majors | 144,024,485 | 48.5% | 22,543,941 | 47.0% |
| Independents: | | | | |
| O1 Distribution | 28,107,246 | 9.5% | 4,681,596 | 9.8% |
| Lucky Red | 21,586,998 | 7.3% | 3,386,206 | 7.1% |
| Notorious | 17,620,822 | 5.9% | 3,031,612 | 6.3% |
| Leone Film Group | 17,569,713 | 5.9% | 2,766,959 | 5.8% |
| Medusa Film | 15,940,567 | 5.4% | 2,575,920 | 5.4% |
| Eagle Pictures | 12,517,056 | 4.2% | 2,093,096 | 4.4% |
| BIM Distribution | 12,028,715 | 4.1% | 2,060,071 | 4.3% |
| Other Independents | 28,032,273 | 9% | 4,916,253 | 10% |
| Total | 296,956,145 | 100.0% | 47,955,029 | 100.0% |

Source: Cinetel

2H2014 expectations

The five movies LFG released in 1H2014 continued generating revenues in 2H2014. First of all, *Big Wedding* and *Need for Speed* continued their box-office performances into 3Q2014, and accordingly we expect these two to generate € 0.2mn additional theatrical revenues in the second half. Secondly, we expect the company to cash-in further revenues in 2H2014 from the sale of rights of the 1H2014 films.

LFG, in 2H2014, is expected to generate revenues also from the sale of three of its motion pictures, Red Granite's *She's Funny That Way* (with Jennifer Aniston as lead actress), Millenium's *Before I Go to Sleep* (with Nicole Kidman) and again Millenium's *Eliza Graves* (with Kate Beckinsales), which it acquired in 2013. We had --in our previous reports-- listed these films among LFG's pipeline for 2014 and we expected them to generate

different streams of income (theatrical, PayTV, Free TV etc) for the company. Nevertheless we adjusted our estimates as LFG decided to sell these films (100% of all rights) generating an immediate income.

LFG's new content that will exhibit in the Italian theaters during 2H2014 is listed in Table 4 below. Dreamworks' *Delivery Man* and Weinstein's *The Giver* are already playing in theaters, whereas Dreamworks' *The Hundred-Foot Journey* (Italian name: *Amore, Cucina e Curry*) will arrive very soon. We guesstimate these three films to generate € 2.5mn box-office revenues, and accordingly contribute € 0.4mn as theatrical income to LFG's top-line in 2H2014. In addition, we expect them to earn € 1.7mn, again in the second half, from the sale of the rights.

Table 4: LFG's Theatrical Pipeline for 2H2014

| Title | Release Date | Director | Actors | Producer |
|---------------------------------|--------------|-------------------|----------------------------|-------------|
| <i>Delivery Man</i> | July 2014 | Ken Scott | Vince Vaughn | Dreamworks |
| <i>The Giver</i> | Sept. 2014 | Phillip Noyce | Meryl Streep, Jeff Bridges | Weinstein |
| <i>The Hundred-Foot Journey</i> | Oct. 2014 | Lasse Hallstrom | Helen Mirren | Dreamworks |
| <i>Dumb & Dumber To</i> | Dec. 2014 | Farrelly Brothers | Jim Carrey, Jeff Daniels | Red Granite |

Source: LFG

Another film that will be released in 2H2014 will be Red Granite's *Dumb & Dumber To*. It will be the second of the series, the first of which was the famous 1994 American road-buddy comedy featuring Jim Carrey and Jeff Daniels that succeeded to reach worldwide box-office revenues of \$ 247.3mn. *Dumb & Dumber To* will be released in early December, and is expected to remain in theaters until late January 2015, hence covering the holiday season as well. We expect this movie to contribute € 2.0mn and € 1.4mn to LFG's net sales respectively in 2H2014 and FY2015.

LFG, contrary to our previous forecasts, did not produce (or co-produce) movies in 1H2014 and this is expected to be the case in 2H2014 as well. The management; however, is taking an alternative step by acquiring Lotus Productions, which will then be LFG's Italian productions arm. Lotus already has a pipeline of productions: two movies in 2015, four in 2016 and three in 2017. We consolidated our Lotus estimates into LFG's numbers starting from the acquisition date that is expected to be November 2014. From 2015 on, the contribution of Lotus to LFG's overall turnover will be noteworthy.

All in all, we needed to revise down our previous 2014 estimates for LFG in line with: a) missing productions, and b) less contribution from Pacmedia. We now expect LFG to reach € 19.2mn net sales and € 14.3mn EBITDA in FY2014. Net profit is estimated to be € 2.1mn.

Table 5: Summary Income Statement Estimates

| € thousand | 2012 | 2013 | 2014E | 2015E | 2016E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 13,139 | 20,271 | 19,166 | 29,774 | 46,101 |
| EBITDA | 6,666 | 12,551 | 14,294 | 11,867 | 21,705 |
| Amortization | -4,149 | -8,287 | -10,658 | -7,051 | -13,779 |
| EBIT | 2,517 | 4,264 | 3,636 | 4,816 | 7,926 |
| Net Financial Income | -321 | -649 | -213 | -211 | 180 |
| PBT | 2,196 | 3,615 | 3,422 | 4,605 | 8,106 |
| Taxes | -697 | -1,360 | -1,288 | -1,733 | -3,050 |
| Net Income | 1,499 | 2,255 | 2,135 | 2,873 | 5,057 |
| Minority Interest | 50 | -109 | 0 | 0 | 0 |
| Net Income after MI | 1,449 | 2,364 | 2,135 | 2,873 | 5,057 |

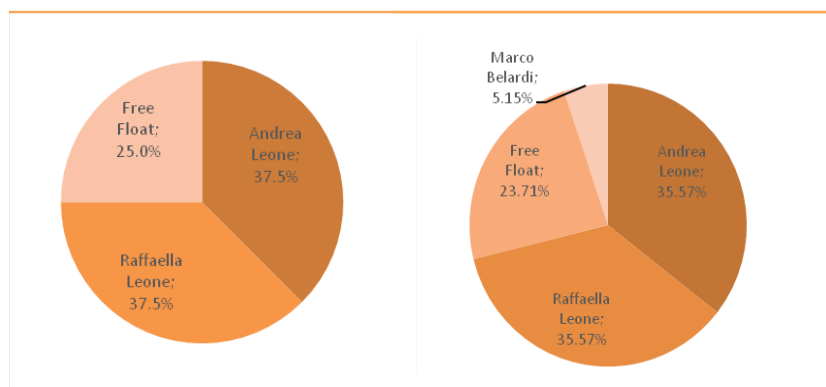
Source: Company data, KT&P estimates

Acquisition of Lotus Production

LFG management, pre-IPO, stated their target to grow further in the upstream (content production or co-production) segment. Having had already co-produced 3 motion pictures since 2009, Italian as well as international, LFG was planning to capitalize further on their know-how and network co-producing two movies in 2014. These two production projects; however, did not realize. On the other hand, LFG announced in July 2014 its strategic decision to acquire Lotus Production, an Italian independent production house founded and since-then managed by Antonio (Marco) Belardi. Lotus is specialized in executive productions (movie and TV series) as well as co-productions and some of its well-known recent films are *Immaturo* (2011), *Una Famiglia Perfetta* (2012), and *Tutta Colpa di Freud* (2014).

Lotus in 2013 realized a turnover of € 11mn, with € 0.7mn of EBITDA and € 0.4mn of net profit. According to the deal, which is expected to be finalized in November 2014, LFG will pay € 2.4mn cash (€ 1.6mn upfront and € 0.8mn within six months after closing) and 734,694 newly issued LFG shares (corresponding to 5.2% of LFG shares post-capital increase) to Marco Belardi, who will then also enter LFG's BoD. Belardi will have a 5-year lock-up for the LFG shares he would receive.

Graph 1: LFG's Pre and Post-Lotus Shareholding Structure



Together with this deal, LFG will diversify its revenues into the production business, which was among the management's previously-stated targets, and we welcome this acquisition as part of LFG's growth strategy. Executive productions are a low-risk business as the budget of the movie is provided by the producer (e.g. RAI Cinema or Medusa) and the executive producer gets a previously agreed percentage fee (usually 15%) over the production cost. Productions and co-productions, on the other hand, require a participation in the budget of the movie, but in return the producer or co-producer receives not only a percentage of the revenues generated by the movie but also state support in the form of tax credits, regional funds and subsidies (last one depending on the success of the theatrical performance).

Lotus provides visibility to LFG's future production revenues as it already has a pipeline of executive production and co-production projects. It is anticipated to produce 2 movies in 2015 and 4 movies in 2016.

Lotus Production has exclusivity agreements with 2 Italian directors; Paolo Genovese (director of films like *Tutta Colpa di Freud-2014*, *Una Familia Perfetta-2012*, *Immaturo-2011*) and Paolo Virzi (director of films like *Il Capitale Umano-2014*, *Tutti I Santi Giorni-2012*, *La Prima Cosa Bella-2010*). Paolo Virzi's *La Prima Cosa Bella* was selected to represent Italy at the 83rd Academy Awards (Oscar) in the Best Foreign Language Film category.

Lotus' agreement with Genovese is for 4 years and accordingly Genovese will produce 1 movie per year for Lotus between 2015 and 2018. The agreement with Virzi, on the other hand, is for 2 movies in three years, of which management is expecting to release one in 2015 and the other in 2016.

Table 6: Lotus Estimates

| € mn | 2013 | 2014E | 2015E | 2016E |
|-----------|------|-------|-------|-------|
| Net Sales | 11.0 | 6.6 | 14.0 | 17.5 |
| EBITDA | 0.7 | 0.3 | 1.0 | 1.2 |

Source: KT&P estimates

2015 outlook

Next year, LFG plans to distribute eight new motion pictures (Table 7 below) and we expect these contents to generate above € 11mn box-office revenues all together in Italy. One may note that among these seven films, there is one single Dreamworks production (*Light between the Oceans*) in spite of the facts that LFG has an exclusivity agreement with Dreamworks to distribute its films in Italy and Dreamworks was previously expected to procure 3 films for the year 2015. Yet, Dreamworks is late in productions. Also considering that Dreamworks' recent releases (like *Need for Speed* distributed by LFG in 1H2014) did not perform up to expectations, we preferred to be on the cautious side and included one single Dreamworks production among 2015 releases. Any positive progress (eg; Dreamworks' finishing the productions on time and/or LFG's ability to secure a better deal for these productions) will contribute to LFG's estimated turnover and profitability in FY2015. Please note that LFG has the option, not the obligation, to purchase Dreamworks productions at the prices and conditions defined when the exclusivity agreement was signed in December 2012.

Table 7: LFG's 2015 Pipeline for Content Distribution

| Title | Release Date | Director | Actors | Producer |
|--------------------------|--------------|------------------|----------------------------------|------------|
| Fathers & Daughters | Jan-Feb'15 | Gabriele Muccino | Russell Crowe, Amanda Seyfried | Voltage |
| Sicario | July 2015 | Denis Villeneuve | Emily Blunt, Josh Brolin | Lionsgate |
| Tulip Fever | Sept. 2015 | Justin Chadwich | Christoph Waltz | Weinstein |
| The Last Face | Oct. 2015 | Sean Penn | Charlize Theron, Javier Bardem | Lionsgate |
| Chef | Oct. 2015 | John Wells | Bradley Cooper | Weinstein |
| Glass Castle | Nov. 2015 | Destin Cretton | Jennifer Lawrence | Lionsgate |
| La La Land | Nov. 2015 | Damien Chazelle | Emma Watson, Miles Teller | Lionsgate |
| Light between the Oceans | Dec. 2015 | Derek Cianfrance | Michael Fassbender, Rachel Weisz | Dreamworks |

Source: LFG

In addition to the above-listed downstream pipeline, LFG is expected to co-produce a € 2.5mn-budget, Christmas-theme movie in 2015 working with a famous Italian director. This project is not among Lotus' pipeline as is being developed by LFG independent of Lotus and is expected to contribute to LFG's turnover not only as theatrical, Pay TV, Free TV, Digital Platform and DVD revenues (like in the case of content distribution), but also as tax credits (internal and external), regional funds, product placement revenues and subsidies (calculated over box-office revenues). In our model, we estimated this film to be co-produced 50% by LFG, investing € 1.25mn, and generate € 3.0mn box-office revenues, being viewed by an estimated 500,000 spectators. This co-production is expected to contribute € 1.1mn and € 0.7mn of revenues to LFG's net sales respectively in FY2015 and FY2016.

LFG's FY2015 turnover is anticipated to receive a boost from Lotus' production revenues which we estimate as € 14mn. Lotus is expected to: a) Do the executive production (for Mediaset's Medusa) of the Paolo Genovese movie *Mi Vuoi Risposare* that will have a c. € 6.5mn budget, and b) Realize

either the co-production or executive production of the Paolo Virzi movie *Ragazze in Fuga* that will have a c. € 6mn budget.

At the end, LFG's FY2015 net sales and EBITDA are expected to be € 29.8mn and € 11.9mn respectively. The company's overall EBITDA margin is expected to slim down to as low as 40% (from an expected 75% in FY2014) because Lotus operates with lower margins compared to LFG. The company is anticipated to report € 2.9mn of net profit in FY2015.

Digital is picking up

We had previously stated in our reports that digital (Video on Demand) would be an increasing source of revenue for Italian content distributors, also together with the expected growth of the market with new players. In the meantime, we witnessed new players, such as Infinity (Mediaset's digital platform), entering the market and existing players (such as Chili, Cubovision, Xbox) growing further.

This trend has had its positive effects on LFG. The company recently signed agreements with two digital operators to sell LFG content (library and new). Similar agreements are expected to be finalized soon with other players. Some of the digital revenues will be on a 'pay per view' basis, whereas some others are flat. All in all, we expect LFG to generate digital revenues of € 1.2mn in the next 18 months period (including 2H2014 and FY2015).

2016 with Giuseppe Tornatore

Lotus will soon be LFG's local production house, nevertheless the management's ambitions for international co-productions continue. Considering their worldwide network of relationships and credibility in the industry, international co-productions would be the ultimate way to return value to LFG's shareholders. In view of this, Leone siblings recently agreed with the Sicilian Oscar-winning director Giuseppe Tornatore to produce a movie together in 2016.

Tornatore, a celebrated name in the motion picture industry, produced sensational films for a worldwide audience. His latest film *The Best Offer* (2013) reached \$ 16mn box-office revenues internationally. His 2009 film *Baaria*, telling a purely Italian story, generated € 15mn box-office revenues in Italy.

We already included an € 8.0mn-budget Tornatore film in our 2016 estimates and this film will likely generate international revenues, in addition to the Italian.

In 2016, besides the strong production outlook due to a Tornatore-movie and Lotus's stronger-than-2015 pipeline of four productions (with Genovese, Virzi and two others), LFG's content distribution is expected to be very powerful as well. Eight films, listed below in Table 8, are all blockbusters each of which is expected to exceed € 1mn of box-office revenues in Italy. Among them are Steven Spielberg's *Big Friendly Giant*, a new *Highlander* movie possibly with Ryan Reynolds, *The Shack*, inspired from the global best-selling book which sold out 18mn copies worldwide, and *A Monster Calls*, a high-profile movie inspired again from an award-winning fantasy novel and featuring Liam Nielsen.

Table 8: LFG's 2016 Pipeline for Content Distribution

| Title | Expected Release | Director | Actors | Producer |
|--------------------|------------------|--------------------------|--------------------------------------|------------|
| A Monster Calls | Apr. 2016 | J. A. Bayona | Liam Nielsen, Felicity Jones | Lionsgate |
| Highlander | May 2016 | J. C. Fresnadillo | Ryan Reynolds (<i>provisional</i>) | Lionsgate |
| Deep Water Horizon | May 2016 | J. C. Chandor | Mark Wahlberg | Lionsgate |
| Las Madres | June 2016 | <i>Not announced yet</i> | Leslie Mann, Octavia Spencer | Dreamworks |
| Chaos Walking | July 2016 | Robert Zemeckis | <i>Not announced yet</i> | Lionsgate |
| Power Rangers | July 2016 | TBD | TBD | Lionsgate |
| Shack | Oct. 2016 | Forest Whitaker | Forest Whitaker | Lionsgate |
| Big Friendly Giant | Nov. 2016 | Steven Spielberg | <i>Not announced yet</i> | Dreamworks |

Source: LFG

2016 will be a year when we expect LFG to reach € 46mn consolidated revenues, with an expected 55% yoy increase compared to 2015E. Out of this € 46.1mn, we expect new content distribution to contribute € 20.7mn and productions (Lotus, plus the Tornatore movie) € 23.6mn. The rest of the top-line, € 1.8mn, is estimated to come from LFG's library.

All being high-profile movies that are expected to generated big box-office revenues, 2016 films' contribution to margins is anticipated to be higher as well. We forecast LFG to reach € 21.7mn EBITDA and € 5.1mn net profit in the year. More importantly, we expect that by YE2016 LFG will reach a 17.5% Return on Capital Employed (Table 9).

Table 9: Expected Return on Capital Employed

| € thousand | 2011 | 2012 | 2013 | 2014E | 2015E | 2016E |
|------------------|--------------|-------------|--------------|-------------|--------------|--------------|
| Capital Employed | 14,770 | 18,314 | 22,250 | 31,812 | 23,841 | 28,242 |
| NOPAT | 1,493 | 1,718 | 2,660 | 2,268 | 3,004 | 4,944 |
| ROCE | 10.1% | 9.4% | 12.0% | 7.1% | 12.6% | 17.5% |

Source: Company data, KT&P estimates

LFG Comparative Valuation Table

| Company Name (mn/€) | Exchange | Market Cap | EV/EBITDA 2015 | EV/EBIT 2015 | P/EBIT 2015 | P/E 2015 |
|--|----------------|------------|-------------------|-----------------|----------------|-------------|
| Lions Gate Entertainment Corp. | NYSE | 3,465 | 13.8 | 17.4 | 9.9 | 17.3 |
| DreamWorks Animation SKG, Inc. Class A | NASDAQ | 1,608 | 19.6 | 18.4 | 12.3 | 23.9 |
| Entertainment One Ltd. | London | 1,133 | 9.0 | 9.4 | 10.7 | 12.6 |
| EuropaCorp SA | Euronext Paris | 118 | 3.4 | 5.4 | 2.8 | 4.3 |
| Splendid Medien AG | Xetra | 20 | 2.2 | 6.1 | 3.8 | 5.3 |
| Lucisano Media Group S.p.A. | Milan | 42 | 2.8 | 7.2 | 4.0 | 6.6 |
| Notorious Pictures S.p.A. | Milan | 49 | 2.6 | 3.2 | 3.2 | 5.4 |
| Average peer group | | 919 | 7.6 | 9.6 | 6.7 | 10.8 |
| LFG | Milan | 41 | 2.3 | 5.7 | 8.6 | 14.4 |

Source: Factset and KT&Partners estimates

| Company Name (mn/€) | EV/EBITDA 2016 | EV/EBIT 2016 | P/EBIT 2016 | P/E 2016 |
|--|-------------------|-----------------|----------------|-------------|
| Lions Gate Entertainment Corp. | 13.4 | 16.9 | 9.6 | 15.4 |
| DreamWorks Animation SKG, Inc. Class A | 9.3 | 10.4 | 6.9 | 14.2 |
| Entertainment One Ltd. | 8.5 | 8.7 | 9.8 | 11.8 |
| EuropaCorp SA | 3.1 | 4.6 | 2.4 | 3.6 |
| Splendid Medien AG | 2.0 | 4.9 | 3.0 | 4.2 |
| Lucisano Media Group S.p.A. | 2.5 | 4.5 | 2.5 | 3.8 |
| Notorious Pictures S.p.A. | 2.2 | 2.7 | 2.8 | 4.6 |
| Average peer group | 5.8 | 7.5 | 5.3 | 8.2 |
| LFG | 1.3 | 3.5 | 5.2 | 8.1 |

Source: Factset and KT&Partners estimates

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